

**THE LOS ANGELES COUNTY SHERIFF'S DEPARTMENT RESPONSE TO THE
AUDITOR-CONTROLLER'S REVIEW OF TRANSACTIONS BETWEEN LOS
ANGELES COUNTY AND PALANTIR TECHNOLOGIES, INC.**

(Board Agenda Item 7, April 14, 2015)

Transaction 1 – Palantir Pilot Project

Equipment - Servers

RECOMMENDATION 1:

Sheriff's management revise its listing of equipment purchased with Urban Areas Security Initiative and State Homeland Security Grant Program funds to comply with the record keeping requirements specified in Title 44 Code of Federal Regulations, Part 13.

Sheriff's Response to Recommendation 1: Agree

The Department is in the process of updating the inventory listing of servers/hardware in accordance with reporting requirements of CFR 44, Part 13 and the County Fiscal Manual (CFM) section 6.1.0 Capital Assets.

Implementation Status to Recommendation 1:

The Inventory listing of equipment, 44 servers maintained at the JRIC is being updated to comply with CFR Title 44, Part 13 and the CFM 6.1.0 Capital Assets. The Fixed Assets/Inventory Control Unit is scheduled to report to the JRIC so the 44 servers can be tagged for processing into the Counties Capital Asset System (CAS).

RECOMMENDATION 2:

Sheriff's management determine or estimate the acquisition cost of Palantir servers, record any Palantir hardware that meets the County's definition of a Capital Asset (i.e., costing \$5,000 or more) in eCAPS, as required by CFM Section 6.1.0, and implement procedures to ensure that future capital asset purchases are appropriately recorded.

Sheriff's Response to Recommendation 2: Agree

The Department is evaluating each of the 44 servers purchased from Palantir to determine each servers acquisition cost and will record in eCAPS those servers meeting CFM's 6.1.0 capital asset definition. In addition, procedures will be implemented to ensure that future capital asset purchases are appropriately recorded.

Transactions 2-5 and 8-11 – Palantir Purchases for JRIC

Implementation Status to Recommendation 2:

Palantir has been contacted in an effort to obtain each server's acquisition cost. It is highly likely that each of the 44 servers will meet the County's definition of a Capital Asset. Once the acquisition cost is determined, each server costing \$5,000 or more will be tagged and entered into the eCAPS Capital Asset System (CAS). Additionally, procedures have been updated to ensure purchases of equipment costing \$5,000 or more will be inventoried, tagged and entered into the CAS.

RECOMMENDATION 3:

Sheriff's management ensure that all applicable Chief Information Office reviews/approvals related to information technology procurement are obtained prior to approving Departmental purchase requests.

Sheriff's Response to Recommendation 3: Agree

The Department is in the process of developing procedures that ensure all information technology purchases are reviewed/approved by the Chief Information Office prior to approving Departmental purchasing requests.

Transaction 7 – Palantir Purchase for JRIC

Implementation Status to Recommendation 3:

The Department's Technology and Support Division (TSD) is working in conjunction with the CIO for major IT procurements, (now part of the CEO's office), and ISD for routine IT purchases. TSD management has determined that its procedures are in compliance with the review/approval process.

RECOMMENDATION 5:

Sheriff's management ensure that prior to approving payment, invoices contain sufficient information, e.g., term of service for annual support/maintenance, etc., to determine that items billed were received and are in accordance with the agreement under which they were procured. Also, invoices should be reviewed by an employee with sufficient knowledge to certify that all items billed for have been received.

Sheriff's Response to Recommendation 5: Agree

The Department will ensure that procedures for the review and approval of invoices are strictly enforced to ensure all required information is contained in the invoice and that the appropriate level of management has reviewed all items billed for and have been received.

Transaction 12 – Retroactive Payment

Implementation Status to Recommendation 5:

The March 29, 2016, Software Maintenance and Application Support Contract, Exhibit A contains specific requirements for invoicing and payments. The JRIC processes the Palantir invoice and forwards it to Special Operations Division for further review and approval before forwarding it to Accounts Payable Contracts section for payment. Each step in the review and approval process ensures all contract requirements are met including maintenance fees per Exhibit B of the contract.

RECOMMENDATION 7:

Sheriff's management ensure that procurement staff are appropriately trained on County policies related to contracting, retroactive payments, and the importance of ensuring that agreements are in place, where required, before incurring costs for services.

Sheriff's Response to Recommendation 7: Agree

The Department will ensure that all operational division's staff are appropriately trained on County policies related to contracting, (i.e., sole source agreements), retroactive payments and assurance that agreements are in place before costs for services are incurred.

Implementation Status to Recommendation 7:

The Department's Fiscal Administration continues a regular outreach (ongoing) to Division representatives to communicate the policies regarding contracting and retroactive payments to ensure agreements are in place before costs for services are incurred.

RECOMMENDATION 8:

Sheriff's management follow through with the Chief Executive Officer's Retroactive Contract Review committee's (RCRC) established procedures to help prevent additional retroactive payments.

Sheriff's Response to Recommendation 8: Agree

In an April 3, 2015 letter to the Board of Supervisor's the Department indicated it plans to work with the CEO's RCRC for disposition and approval of a corrective action plan to mitigate the issue of retroactive payments.

Implementation Status to Recommendation 8:

The Department is in the process of completing the RCRC procedures for review and evaluation prior to meeting with the RCRC Committee.

Other Issues

Palantir Pricing Model

RECOMMENDATION 10:

Sheriff's management work with County Counsel, Palantir, and if applicable, the Internal Services Department to negotiate pre-approved and the most economic pricing for future Palantir core purchases.

Sheriff's Response to Recommendation 10: Agree

The Department will work with County Counsel, Palantir, and the Internal Services Department to negotiate pre-approved and economically priced future Palantir core purchases.

Implementation Status to Recommendation 10:

The Department has no immediate plans to purchase additional CORES from Palantir. If Palantir communicates a technical need that the Department purchase additional CORES, the Department will engage the efforts of a third-party consultant to validate the need, and if so validated, the Department will engage Palantir in negotiations for CORE pricing, and break out the cost from their current business pricing model.

Contract for IT Services

RECOMMENDATION 12:

Work with County Counsel and Palantir to establish agreed-upon contract terminology such that Palantir's products can be classified and differentiated as "commodities" and "services."

Sheriff's Response to Recommendation 12: Agree

The Department will work with County Counsel and Palantir, to establish agreed-upon contract terminology such that Palantir's products can be classified and differentiated as "commodities" and "services."

Implementation Status to Recommendation 12:

The Department has executed a Board approved contract dated March 29, 2016, (attached) for software maintenance and application support, a commodity purchase. The contract is very specific in disallowing any consulting services outside a separate agreement which may be negotiated in the future.

RECOMMENDATION 13:

Work with County Counsel and if applicable, the Internal Services Department, to establish a Board-approved contract for service purchases from Palantir.

Sheriff's Response to Recommendation 13: Agree

The Department will work with County Counsel and the Internal Services Department to establish a Board-approved contract for service purchases from Palantir.

Implementation Status to Recommendation 13:

The Department is in the process of drafting a Board Letter for sole source consulting Services to create new products for the JRIC, and possibly update existing software products delivered under prior PO's.

California Sales Tax on Equipment - Servers

RECOMMENDATIONS:

Sheriff's and Internal Services Department management:

RECOMMENDATION 14.

Work with Palantir to determine the cost basis of any taxable items purchased and the taxability of any services received under these purchases, and obtain written verification of all state sales tax paid by Palantir related to each purchase.

Sheriff's Response to Recommendation 14: Agree

Sheriff's management in consultation with the Internal Services Department and the Audit-Controller's Disbursement Division will determine the cost basis and applicable tax liability of services received and products purchased from Palantir and obtain written verification that all California Sales Taxes have been paid.

Implementation Status to Recommendation 14:

Palantir has advised the Department that all use tax and Federal taxes, where applicable, have been paid by Palantir.

RECOMMENDATION 15.

Request that Palantir include in all future invoices a separate line item for sales tax, and a representation as to who has paid or is responsible for paying the taxes to the Board of Equalization.

Sheriff's Response to Recommendation 15: Agree

Sheriff's management will require Palantir to include in all future invoices a separate line item for sales tax and acknowledge its responsibility as a California Corporation to pay the appropriate tax to the Board of Equalization.

Implementation Status to Recommendation 15:

The Department has communicated to Palantir the requirement to separate tax on future invoices, where applicable. Palantir representatives acknowledged their responsibility to pay appropriate tax.

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